

FINANCIAL STATEMENTS



TOWN OF RICHLANDS, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2017

TOWN OF RICHLANDS, VIRGINIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

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TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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TOWN OF RICHLANDS, VIRGINIA

TOWN COUNCIL

Jan White, Mayor

Doug Ratliff, Vice Mayor

Vikki England

Larry Johnson

Rod Cury

Mary Ann Strong

Rick Wood

Connie Allen, Town Clerk

OTHER OFFICIALS

Timothy Taylor	Town Manager
Sue Wade	Office Manager
Adrienne Cordle	Accountant

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of the Town Council
Town of Richlands, Virginia
Richlands, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension funding on pages 5-17, 66, and 67-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Richlands, Virginia's basic financial statements. The introductory section, supporting schedules, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the Town of Richlands, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Richlands, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers the readers of the Town of Richlands, Virginia (the Town) financial statements a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017.

Financial Highlights for fiscal year 2017

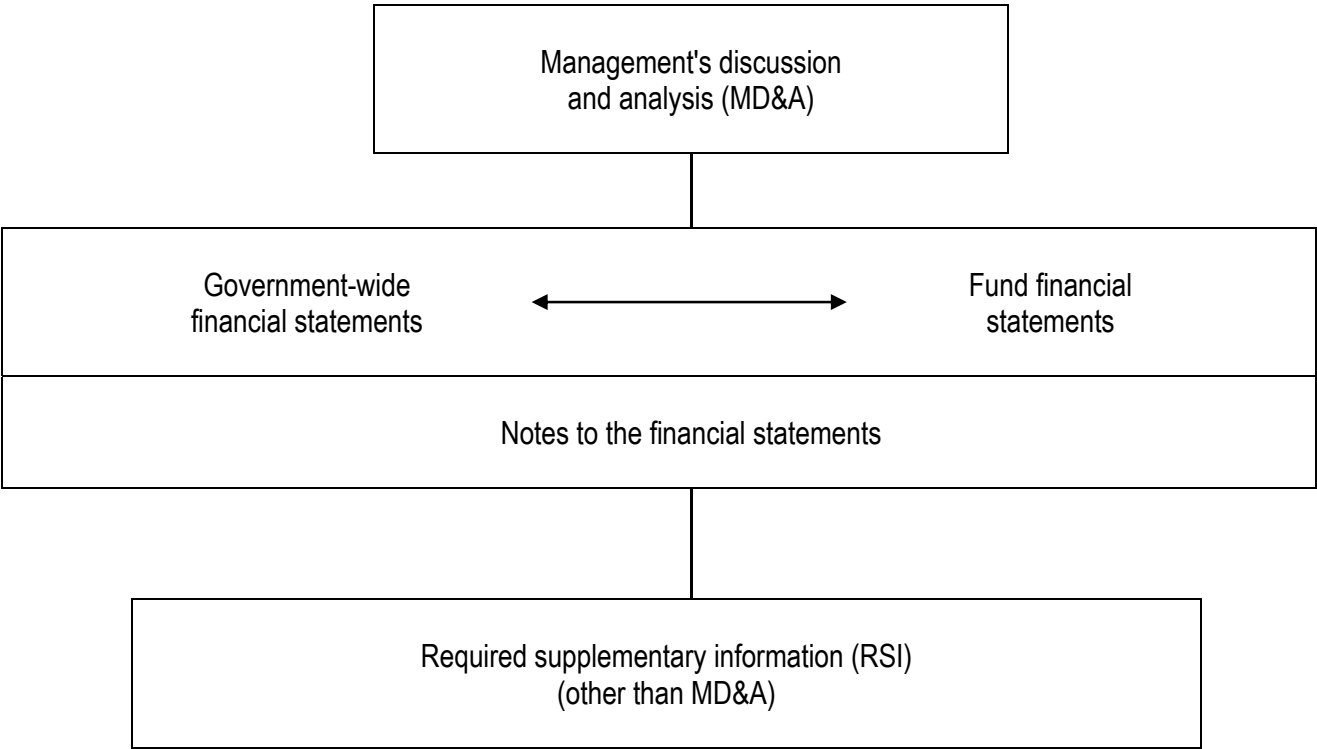
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$19,272,015 (net position). Of this amount, (\$866,840) (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$789,143. The decrease is attributable to a decrease in both governmental and business-type assets and an increase in liabilities.
- The Town's total liabilities and deferred outflows of resources at the close of the current fiscal year were \$13,266,783, including \$10,270,731 in long-term obligations.
- Long-term obligations primarily represent amounts due on the Town's general obligation bonds and net pension liability.
- As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$455,857, a decrease of \$261,435 from the prior year fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$172,564, or 3.4% of total general fund expenditures. Such amount is available for spending at the government's discretion.
- At the end of the fiscal year June 30, 2017, the Town incurred expenses of \$115,754 for architectural work performed for the restoration of the Town's Historical Railroad Foreman Section House. The Town was awarded \$438,000 in grant funds for the restoration project.
- During the current fiscal year, the Town made capital improvements/renovations to its recreational facility gymnasium totaling approximately \$156,000. The renovations include the installation of approx. 13,300 sq. ft. of Tarkett Omnisport 6.5 mm flooring with two-color layout, installation of a Conklin MR Roof System and installation of 2 lb. Closed Cell Foam Insulation as well as fresh paint throughout the gymnasium. The capital improvements include the purchase and installation of a 100 feet draw walk curtain divider at 22 feet high and (7) 3 row 21 feet Tip n' Roll Bleachers. All renovations and improvements were funded through contributions and donations from various businesses and organizations within the community.
- The Town had one Revenue Bond at the end of the current fiscal year with a total balance of \$650,233.
- The Town had general obligation bonds at June 30, 2017 with an ending balance of \$1,675,511.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Town’s basic financial statements. The Town’s basic financial statements consist of three major components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Figure A shows how the required parts of this MD&A and the Town’s basic financial statements are arranged and related to one another.

Figure A
Required Components of Richland’s Financial Statements



Government-Wide Financial Statements

The *government-wide financial statements* (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financial statements can be found on page 18-19 of this report.

Fund Financial Statements

The format of the fund financial statements will be more familiar to traditional users of the Town's financial statements. The fund financial statements provide more detailed information about the Town's most significant funds – not the Town as a whole. Funds are accounting mechanisms that the Town uses to keep track of specific sources of funding and spending for particular purposes. Separate financial statements are provided for governmental and proprietary funds. Major individual government funds and enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

Governmental funds account for expendable financial resources other than those accounted for in the proprietary funds. The governmental fund measurement focus is upon determination of financial position and cash flows in and out and the balances that remain at year-end that is available for spending (rather than net income determination as would apply to a commercial enterprise). As a result, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

The Town reports one major government fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, with the exception of those accounted for in another fund.

The basic governmental fund financial statements can be found on pages 20 and 22 of this report.

Proprietary Funds

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary funds:

The *electric fund* accounts for the activities of the electric operations.

The *water and sewer fund* accounts for the activities of the water operations.

The basic proprietary fund statements can be found on pages 24-26 of this report.

Budgetary Comparison

The Town adopts an annual appropriated budget for all government funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget and will disclose how accurately the governing body was able to forecast the revenues and expenditures of the Town.

Notes to the Financial Statements








The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-65 of this report.

Government-Wide Financial Analysis

Statement of Net Position

The following table reflects the Town's condensed net position:

Table 1
Summary of Net Position
As of June 30, 2017

	Governmental Activities		Business-type Activities		Totals	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 1,633,938	\$ 1,754,504	\$ 6,715,039	\$ 6,781,788	\$ 8,348,977	\$ 8,536,292
Capital assets	11,077,038	10,679,243	12,016,220	11,583,631	23,093,258	22,262,874
Total assets	 12,710,976	12,433,747	 18,731,259	18,365,419	 31,442,235	30,799,166
Deferred outflows of resources	410,905	685,698	185,151	356,924	596,056	1,042,622
Long-term liabilities	5,176,766	5,484,583	4,743,706	4,786,148	9,920,472	10,270,731
Other liabilities	815,712	1,193,408	768,004	760,022	1,583,716	1,953,430
Total liabilities	 5,992,478	 6,677,991	 5,511,710	 5,546,170	11,504,188	12,224,161
Deferred inflows of resources	336,255	230,166	136,690	115,446	472,945	345,612
Net position:						
Net investment in capital assets	10,951,882	10,641,889	9,486,213	9,220,534	20,438,095	19,862,423
Restricted	294,175	276,432	-	-	294,175	276,432
Unrestricted	(4,452,909)	(4,707,033)	3,781,797	3,840,193	(671,112)	(866,840)
Total net position	\$ 6,793,148	\$ 6,211,288	\$ 13,268,010	\$ 13,060,727	\$ 20,061,158	\$ 19,272,015

Over time, net position may serve as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$19,272,015 at the close of fiscal year 2017. The largest portion of the Town's net position (103%) reflects its net investment in capital assets (e.g., land, buildings, plant in service, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. Since the capital assets themselves cannot be used to pay the related debt, the resources needed to service this debt must be provided from other sources.

Statement of Activities

The following table shows the revenues and expenses of the Town's governmental and business-type activities:

Table 2
Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	Governmental Activities		Business-type Activities	
	2016	2017	2016	2017
Revenues:				
Program revenues :				
Charges for services	\$ 855,195	\$ 1,060,669	\$ 8,210,913	\$ 8,356,287
Operating grants & contributions	1,319,735	1,105,238	-	-
Capital grants & contributions	1,225	23,760	-	10,078
General revenue:				
Property taxes	467,740	485,587	-	-
Other local taxes	2,014,265	1,961,647	-	-
Unrestricted investment earnings	9,238	7,985	4,778	5,784
Other / Miscellaneous	164,755	101,516	-	-
Grants and contributions not restricted	22,046	15,893	-	-
Gain on disposal of capital assets	-	-	5,909	1,564
Total revenues	4,854,199	4,762,295	8,221,600	8,373,713
Expenses:				
General government administration	292,353	333,731	-	-
Public safety	2,749,662	2,828,938	-	-
Public works	1,719,756	1,773,908	-	-
Parks, recreation, culture	379,405	377,855	-	-
Community development	27,499	25,850	-	-
Nondepartmental	113,910	-	-	-
Interest-long term debt	2,628	3,873	-	-
Electric	-	-	6,005,247	6,091,102
Water & sewer	-	-	2,465,129	2,489,894
Total expenses	5,285,213	5,344,155	8,470,376	8,580,996
Excess (deficiency)	(431,014)	(581,860)	(248,776)	(207,283)
Change in net position	(431,014)	(581,860)	(248,776)	(207,283)
Net position-July 1	7,224,162	6,793,148	13,516,786	13,268,010
Net position-June 30	\$ 6,793,148	\$ 6,211,288	\$ 13,268,010	\$ 13,060,727

Statement of Activities (Continued)

During the current fiscal year the Town's net position decreased by \$789,143. This is comprised of a decrease from governmental activities of \$581,860 and a decrease in business type activities of \$207,283.

Governmental activities – Governmental activities decreased the Town's net position by \$581,860. Additional factors noted below.

Revenues from governmental activities totaled \$4,762,295, with charges for services (22.3%), other local taxes (41.2%) and operating grants & contributions (23.2%), being the major sources of revenues. Most revenues in comparison to the previous year had nominal changes with the exception of charges for services, which increased \$205,474 and Operating grants & contributions, which decreased \$214,497. The increase in charges for services was due significantly to a decrease in bad debt write offs for EMS billings totaling \$198,151 and contractual allowances totaling \$644,211 during the fiscal year as compared to write offs totaling \$485,605 and contractual allowances totaling \$720,920 in the prior year. There was a small decrease in other local tax revenues due to a decrease in the majority of all local tax revenue collections. This is attributed to a downturn in the local economy.

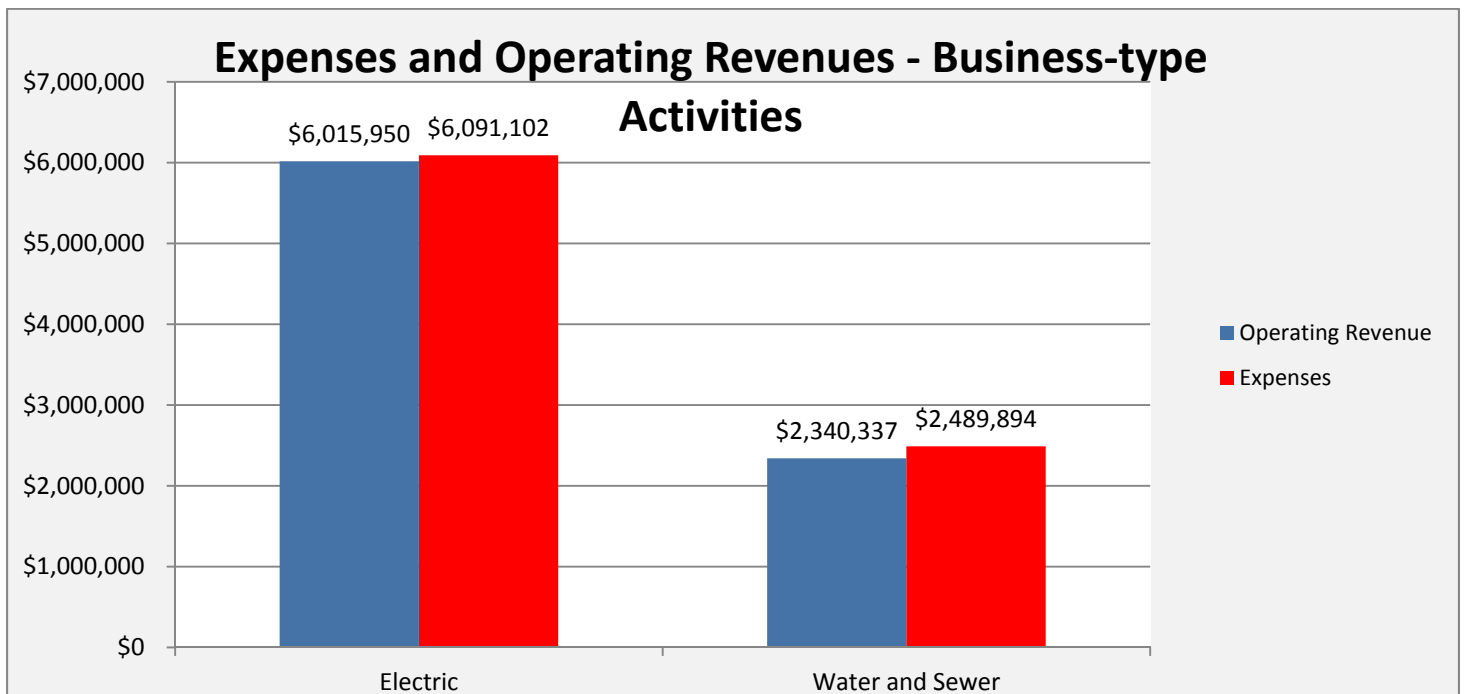
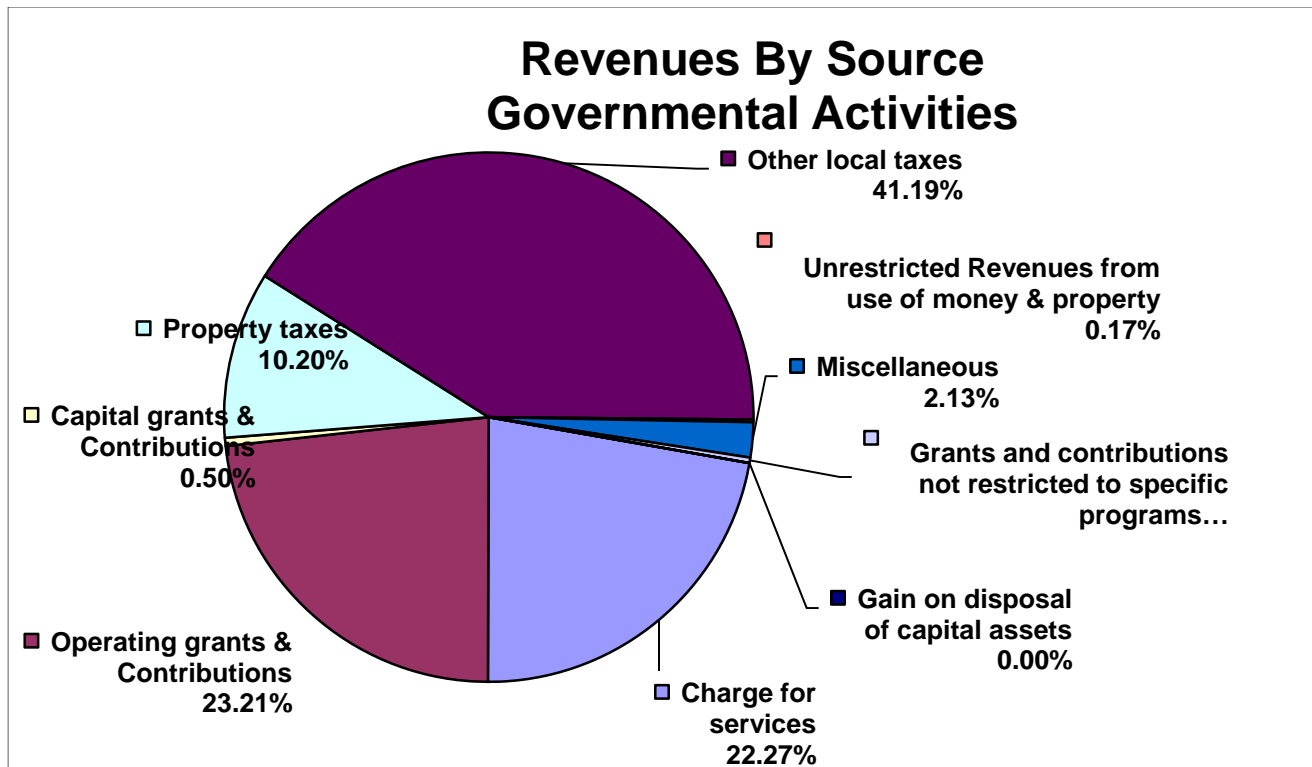
Expenses for governmental activities totaled \$5,344,155 with parks, recreation and culture (7.1%), public safety (52.9%), public works (33.2%), accounting for approximately 93.2% of total governmental expenses. Public works expenses increased \$54,152, public safety increased by \$79,276 and general government administration increased by \$41,378 all a result of an increase in operating expenses.

Business-type activities – Net position of the business-type activities was \$13,060,727 at June 30, 2017. This was a decrease of (\$207,283) from the prior year net position. The current year decrease is \$41,493 more than the prior year decrease of (\$248,776) as a result of a combination of an increase in purchased power costs and decrease in operating expenses as well as an increase in water and sewer operating expenses.

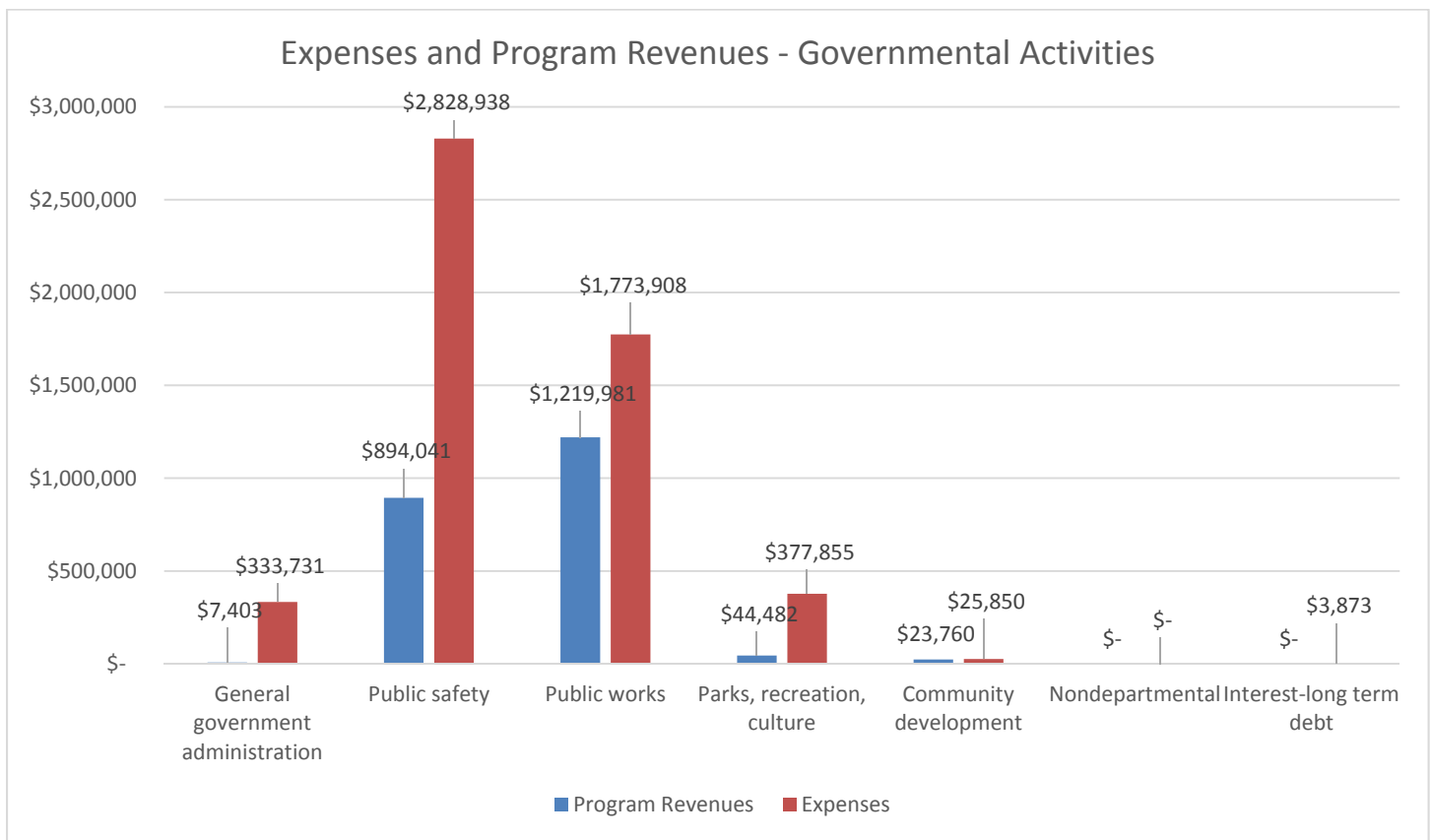
Statement of Activities (Continued)

Program revenues for the business-type activities totaled \$8,373,713, of which \$8,356,287 is charges for services. Expenses totaled \$8,580,996.

- Operating revenues increased from the prior year by \$145,374.
- Proprietary operating expenses increased from the prior year by \$105,481.



Statement of Activities (Continued)



Financial Analysis of the Government's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The general fund is the government's primary operating fund. At the end of the current fiscal year, the Town's general fund reported an ending fund balance of \$455,857, including an unassigned fund balance of \$172,564, which is available for spending at the government's discretion. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 3.4% of total fund expenditures.

The fund balance of the Town's general fund decreased during the current fiscal year by \$261,435 from current year activities. Total revenues decreased by \$464,223 due to a decrease in the majority of all general governmental revenues; however total expenditures decreased as well by \$735,390 significantly due to the following: a decrease in public works operating expenses, a significant decrease in capital projects, and non-departmental expenses.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the electric and water and sewer funds amounted to \$1,632,277 and \$2,207,916 respectively. The total decrease in net position was \$207,283 during the current fiscal year.

Electric fund

The electric fund net position decreased by \$73,359 from current year activities in fiscal year 2017 compared to a prior year decrease of \$4,393. The decrease was primarily a result of an increase in operating expenses. Operating expenses increased by \$105,481 (1.2%) due to a combination of an increase in purchased power which equated to \$241,768, an increase in personnel cost for employees, and a decrease in various operating expenses.

Electric fund non-operating revenues decreased \$2,036 from the prior year, which was related to a combination of an increase in investment income and decrease in gain on sale of assets during the current fiscal year. Electric fund non-operating expense increased \$1,713 from the prior year due to interest expense on Dell capital lease.

Water and sewer fund

The water and sewer fund net position decreased by \$133,924 from current year activities in fiscal year 2017 compared to the prior year decrease of \$244,283. The decrease in net position was a result of a increase in operating revenues and an increase in operating expenses. Operating revenues increased by \$126,449 (5.7%) due primarily to a increase in charges for services. Operating expenses increased \$21,339 (less than 1%), as a result of increased utility cost and miscellaneous expenses. Non-operating expenses increased by \$3,426 due to an increase in interest expense and non-operating revenue decreased by \$1,303 as a result of an increase in investment earnings and decrease in gain on sale of assets.

General Fund Budgetary Highlights

Differences between the budgeted amounts versus the actual amounts are noted below:

- Actual revenues were less than budgeted revenues by \$953,051. The decrease is a result of a combination of an increase in several revenues; however, a decrease in most revenues. The most significant budget variances were: \$169,985 negative variance in revenues from recovered costs; and, a negative variance of \$507,708 under Commonwealth revenue and \$286,751 under federal revenue.
- Actual Expenditures were less than budgeted expenditures by 1,530,188. This is due to a decrease of various expenditures. Public works and public safety expenses were less than budgeted. In addition, expenditures related to capital projects were less than budgeted.

General Fund Budgetary Highlights (Continued)

General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2017

	Budgeted Amounts		Actual
	Original	Final	Amounts
Revenues	\$ 5,791,522	\$ 5,791,522	\$ 4,838,471
Expenditures	(6,630,543)	(6,630,543)	(5,100,355)
Other Financing Sources	10,000	10,000	449
Change in fund balance	\$ (829,021)	\$ (829,021)	\$ (261,435)

Capital Asset and Debt Administration

Capital Assets

The Town's net investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$22,262,874. The net investment in capital assets includes land, construction in progress, buildings and improvements, improvements other than buildings, equipment, and public domain infrastructure additions in the current fiscal year.

Major capital asset events during the current year included the following:

- Capital asset acquisitions in governmental activities totaled \$442,402 (gross) in the current fiscal year. This was for building and system (\$8,906), infrastructure (\$52,905), machinery and equipment (\$281,696), and construction in progress (\$98,895).
- Capital asset acquisitions in business-type activities totaled \$316,519 in the current fiscal year. This was for utility plant and buildings in service (\$84,524), machinery and equipment (\$154,758), and construction in progress (\$77,237).

Capital Assets (Continued)

The Town's Capital Assets (Net of Depreciation) Fiscal Year ended June 30, 2017

	Governmental Activities		Business-Type Activities	
	2016	2017	2016	2017
Land	\$ 1,357,395	\$ 1,357,395	\$ 517,913	\$ 517,913
Construction in Progress	259,598	170,229	132,135	74,014
Buildings and improvements	1,955,943	1,869,026	10,242,542	9,837,484
Improvements other than buildings	6,546,761	6,353,391	-	-
Equipment	957,341	929,202	1,123,630	1,154,220
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 11,077,038	\$ 10,679,243	\$ 12,016,220	\$ 11,583,631

Additional information on the Town's capital assets can be found in Note 10 on pages 59-60 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$2,325,744. Of this amount, \$650,233 is comprised of one revenue bond and the remaining balance of \$1,675,511 is general obligation bonds.

The Town's Long-term Bond Debt Fiscal Year ended June 30, 2017

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Fiscal year 2016</i>				
Business-Type Activities:				
General obligation bonds	\$ 1,849,899	\$ -	\$ 87,195	\$ 1,762,704
Revenue bonds	739,920	-	44,842	695,078
Total	\$ 2,589,819	\$ -	\$ 132,037	\$ 2,457,782
<i>Fiscal year 2017</i>				
Business-Type Activities:				
General obligation bonds	\$ 1,762,704	\$ -	\$ 87,193	\$ 1,675,511
Revenue bonds	695,078	-	44,845	650,233
Total	\$ 2,457,782	\$ -	\$ 132,038	\$ 2,325,744

Additional information on the Town's long-term liability can be found in Note 5 on pages 36-39 of this report.

Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2017 for the County of Tazewell, in which the Town resides, is 6.3%, which is a decrease from the average for 2016 of 7.6%. This compares to the state's unemployment rate of 3.9% and the national rate of 4.5%.
- The Town is located in the AEP Zone of PJM Interconnection, LLC ("PJM"). The Town is also a member of American Municipal Power ("AMP") and has purchased block power from the PJM market through AMP to meet a portion of its energy needs. Additionally, through AMP, the Town is participating in several generation assets including: 2.588 MW of the Prairie State Coal plant unit #1 and unit #2 PSEC are in full commercial operation, 1.5 MW in the AMP Hydroelectric run-of-the river project (Cannelton, Smithland, and Willow Island) located on the Ohio River and 2.2 MW in the Fremont energy campus project is in full commercial operation. The Town also purchases 0.5 MW of capacity and associated energy from Southeastern Power Administration ("SEPA") through a Purchase Power Agreement ("PPA") that is cancelable by either party. Exposure to the volatile energy commodity market will be greatly reduced by providing over 50% of the Town's load requirements from these projects.

Economic Factors and Next Year's Budget Rates

- The evaluation of the American Municipal Power Generating Station (AMPGS) project, a coal fired generation facility in southern Ohio was terminated and final stranded investment costs are still pending, however, cost projections were funded in a rate stabilization fund established by American Municipal Power, Inc (AMP, Inc). The Town has made payments to AMP totaling \$163,226 and had incurred additional costs and interest expense during the fiscal year of \$4,652.
- Wholesale power rates are projected to incrementally increase annually over the next five years.
- The Town will continue to monitor the effects of current economic conditions on energy costs in relation to powering water and wastewater plant facilities and rising costs of raw materials needed to maintain the Town and its infrastructure.

All of these factors were considered in preparing the Town's budget for fiscal year 2018.

Unassigned fund balance in the general fund was \$172,564 as of June 30, 2017. It is intended that this available balance will be utilized in order to meet the government's ongoing obligations to citizens and creditors.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Town of Richlands, 200 Washington Square, Richlands, VA 24641.

Town of Richlands, Virginia
Statement of Net Position
At June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,345,394	\$ 4,569,676	\$ 5,915,070
Receivables (net of allowance for uncollectibles):			
Taxes receivable	84,156	-	84,156
Accounts receivable	221,199	747,892	969,091
Notes receivable	6,861	-	6,861
Due from other governmental units	96,894	1,185,310	1,282,204
Prepaid items	-	278,910	278,910
Capital assets (net of accumulated depreciation):			
Land	1,357,395	517,913	1,875,308
Buildings and system	1,869,026	-	1,869,026
Machinery and equipment	929,202	1,154,220	2,083,422
Infrastructure/utility plant and buildings in service	6,353,391	9,837,484	16,190,875
Construction in progress	170,229	74,014	244,243
Total assets	<u>\$ 12,433,747</u>	<u>\$ 18,365,419</u>	<u>\$ 30,799,166</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 381,428	\$ 171,612	\$ 553,040
Items related to measurement of net pension liability	304,270	185,312	489,582
Total deferred outflows of resources	<u>\$ 685,698</u>	<u>\$ 356,924</u>	<u>\$ 1,042,622</u>
LIABILITIES			
Accounts payable	\$ 419,253	\$ 474,171	\$ 893,424
Accrued liabilities	65,490	19,032	84,522
Customers' deposits	-	266,819	266,819
Accrued interest payable	1,101	-	1,101
Unearned revenue	707,564	-	707,564
Long-term liabilities:			
Due within one year	291,855	260,492	552,347
Due in more than one year	5,192,728	4,525,656	9,718,384
Total liabilities	<u>\$ 6,677,991</u>	<u>\$ 5,546,170</u>	<u>\$ 12,224,161</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - prepaid taxes	\$ 30,961	\$ -	\$ 30,961
Items related to measurement of net pension liability	199,205	115,446	314,651
Total deferred inflows of resources	<u>\$ 230,166</u>	<u>\$ 115,446</u>	<u>\$ 345,612</u>
NET POSITION			
Net investment in capital assets	\$ 10,641,889	\$ 9,220,534	\$ 19,862,423
Restricted	276,432	-	276,432
Unrestricted	(4,707,033)	3,840,193	(866,840)
Total net position	<u>\$ 6,211,288</u>	<u>\$ 13,060,727</u>	<u>\$ 19,272,015</u>

The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	\$ 333,731	\$ 7,403	\$ -	\$ -	\$ (326,328)	\$ -
Public safety	2,828,938	592,086	301,955	-	(1,934,897)	-
Public works	1,773,908	416,698	803,283	-	(553,927)	-
Parks, recreation, and cultural	377,855	44,482	-	-	(333,373)	-
Community development	25,850	-	-	23,760	(2,090)	-
Interest on long-term debt	3,873	-	-	-	(3,873)	-
Total governmental activities	\$ 5,344,155	\$ 1,060,669	\$ 1,105,238	\$ 23,760	\$ (3,154,488)	\$ -
Business-type activities:						
Water and sewer	\$ 2,489,894	\$ 2,340,337	\$ -	\$ 10,078	\$ -	\$ (139,479)
Electric	6,091,102	6,015,950	-	-	-	(75,152)
Total business-type activities	\$ 8,580,996	\$ 8,356,287	\$ -	\$ 10,078	\$ -	\$ (214,631)
Total primary government	\$ 13,925,151	\$ 9,416,956	\$ 1,105,238	\$ 33,838	\$ (3,154,488)	\$ (3,369,119)
General revenues:						
General property taxes	\$ 485,587	\$ -	\$ -	\$ -	\$ -	\$ 485,587
Other local taxes:						
Local sales and use taxes	379,105	-	-	-	-	379,105
Consumers' utility taxes	143,159	-	-	-	-	143,159
Business license taxes	432,437	-	-	-	-	432,437
Motor vehicle licenses	31,441	-	-	-	-	31,441
Bank stock tax	182,740	-	-	-	-	182,740
Meals taxes	772,713	-	-	-	-	772,713
Other local taxes	20,052	-	-	-	-	20,052
Unrestricted revenues from use of money and property	7,985	-	-	-	5,784	13,769
Miscellaneous	101,516	-	-	-	-	101,516
Grants and contributions not restricted to specific programs	15,893	-	-	-	-	15,893
Gain on disposal of capital assets	-	-	-	-	1,564	1,564
Total general revenues	\$ 2,572,628	\$ 7,348	\$ -	\$ -	\$ 7,348	\$ 2,579,976
Change in net position	\$ (581,860)	\$ (207,283)	\$ -	\$ -	\$ (207,283)	\$ (789,143)
Net position - beginning	6,793,148	13,268,010	20,061,158			
Net position - ending	\$ 6,211,288	\$ 13,060,727	\$ 19,272,015			

The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Balance Sheet
Governmental Funds
At June 30, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,345,394
Receivables (net of allowance for uncollectibles):	
Taxes receivable	84,156
Accounts receivable	221,199
Notes receivable	6,861
Due from other governmental units	96,894
Total assets	<u>\$ 1,754,504</u>
LIABILITIES	
Accounts payable	\$ 419,253
Accrued payroll and related liabilities	65,490
Unearned revenue	707,564
Total liabilities	<u>\$ 1,192,307</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 75,379
Unavailable revenue - prepaid taxes	30,961
Total deferred inflows of resources	<u>\$ 106,340</u>
FUND BALANCES	
Nonspendable	\$ 6,861
Restricted	276,432
Unassigned	172,564
Total fund balances	<u>\$ 455,857</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,754,504</u>

The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
At June 30, 2017

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	455,857
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,357,395	
Buildings and improvements	1,869,026	
Machinery and equipment	929,202	
Infrastructure/utility plant and buildings in service	6,353,391	
Construction in progress	<u>170,229</u>	10,679,243

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Unavailable revenue - property taxes		75,379
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Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		381,428
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Items related to measurement of the net pension liability are considered deferred outflows or deferred inflows and will be amortized and recognized in pension expense over future years

Deferred outflows of resources	\$ 304,270	
Deferred inflows of resources	<u>(199,205)</u>	105,065

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease	\$ (37,354)	
Accrued interest payable	(1,101)	
Compensated absences	(339,335)	
Net pension liability	<u>(5,107,894)</u>	(5,485,684)

Net position of governmental activities	\$	<u><u>6,211,288</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General</u>
REVENUES	
General property taxes	\$ 484,317
Other local taxes	1,961,647
Permits, privilege fees, and regulatory licenses	1,290
Fines and forfeitures	93,918
Revenue from the use of money and property	7,985
Charges for services	965,461
Miscellaneous	101,516
Recovered costs	77,446
Intergovernmental	1,144,891
Total revenues	<u>\$ 4,838,471</u>
EXPENDITURES	
Current:	
General government administration	\$ 316,937
Public safety	2,631,827
Public works	1,226,139
Parks, recreation, and cultural	323,389
Community development	25,850
Capital projects	483,407
Debt service:	
Principal retirement	87,802
Interest and other fiscal charges	5,004
Total expenditures	<u>\$ 5,100,355</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (261,884)</u>
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	<u>\$ 449</u>
Net change in fund balances	\$ (261,435)
Fund balances - beginning	717,292
Fund balances - ending	<u><u>\$ 455,857</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	(261,435)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded capital outlays in the current period.

Capital outlays	\$ 254,138	
Depreciation expense	<u>(651,933)</u>	(397,795)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	\$ 1,270	
Change in deferred inflows related to the measurement of the net pension liability	<u>107,993</u>	109,263

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments:		
Capital lease		87,802

Pension contributions subsequent to the measurement date will be a decrease in the net pension liability in the next fiscal year and therefore are not reported in the funds.		(26,706)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Change in compensated absences	\$ 467	
Change in accrued interest payable	1,131	
Change in pension liability	(396,086)	
Change in deferred outflows related to the measurement of the net pension liability	<u>301,499</u>	(92,989)

Change in net position of governmental activities	<u>\$</u>	<u>(581,860)</u>
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The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Statement of Net Position
Proprietary Funds
At June 30, 2017

	Enterprise Funds		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,394,920	\$ 2,174,756	\$ 4,569,676
Accounts receivable, net of allowances for uncollectibles	213,596	534,296	747,892
Due from other governmental units	1,185,310	-	1,185,310
Prepaid items	-	278,910	278,910
Total current assets	<u>\$ 3,793,826</u>	<u>\$ 2,987,962</u>	<u>\$ 6,781,788</u>
Noncurrent assets:			
Capital assets:			
Utility plant and buildings in service	\$ 21,198,354	\$ 1,097,521	\$ 22,295,875
Machinery and equipment	927,486	1,682,289	2,609,775
Land	517,913	-	517,913
Accumulated depreciation	(12,123,745)	(1,790,201)	(13,913,946)
Construction in progress	56,931	17,083	74,014
Total net capital assets	<u>\$ 10,576,939</u>	<u>\$ 1,006,692</u>	<u>\$ 11,583,631</u>
Total noncurrent assets	<u>\$ 10,576,939</u>	<u>\$ 1,006,692</u>	<u>\$ 11,583,631</u>
Total assets	<u>\$ 14,370,765</u>	<u>\$ 3,994,654</u>	<u>\$ 18,365,419</u>
DEFERRED OUTFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 88,363	\$ 96,949	\$ 185,312
Pension contributions subsequent to measurement date	112,584	59,028	171,612
Total deferred outflows of resources	<u>\$ 200,947</u>	<u>\$ 155,977</u>	<u>\$ 356,924</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 51,976	\$ 422,195	\$ 474,171
Accrued wages	12,346	6,686	19,032
Customers' deposits	53,394	213,425	266,819
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	87,195	-	87,195
Capital lease - current portion	24,902	12,451	37,353
Compensated absences - current portion	68,642	22,458	91,100
Total current liabilities	<u>\$ 343,299</u>	<u>\$ 677,215</u>	<u>\$ 1,020,514</u>
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 605,389	\$ -	\$ 605,389
General obligation bond - net of current portion	1,588,316	-	1,588,316
Compensated absences - net of current portion	22,880	7,486	30,366
Net pension liability	1,489,069	812,516	2,301,585
Total noncurrent liabilities	<u>\$ 3,705,654</u>	<u>\$ 820,002</u>	<u>\$ 4,525,656</u>
Total liabilities	<u>\$ 4,048,953</u>	<u>\$ 1,497,217</u>	<u>\$ 5,546,170</u>
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 88,550	\$ 26,896	\$ 115,446
NET POSITION			
Net investment in capital assets	\$ 8,226,293	\$ 994,241	\$ 9,220,534
Unrestricted	2,207,916	1,632,277	3,840,193
Total net position	<u>\$ 10,434,209</u>	<u>\$ 2,626,518</u>	<u>\$ 13,060,727</u>

The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Funds		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,274,730	\$ 5,891,123	\$ 8,165,853
Contract work	2,440	29,782	32,222
Lab testing and septic treatment	28,690	-	28,690
Penalties and service charges	32,927	88,335	121,262
Connection fees	1,550	-	1,550
Utility pole permits	-	6,710	6,710
Total operating revenues	\$ 2,340,337	\$ 6,015,950	\$ 8,356,287
OPERATING EXPENSES			
Salaries, wages and fringes	\$ 1,078,631	\$ 559,058	\$ 1,637,689
Insurance	27,599	11,783	39,382
Audit and legal	32,008	17,959	49,967
Dues, memberships and training	3,738	19,954	23,692
Office supplies and postage	21,332	12,643	33,975
Telecommunications	6,571	3,873	10,444
Equipment and vehicle maintenance	47,103	29,533	76,636
Supplies	267,166	47,750	314,916
Utilities	327,015	15,529	342,544
Heating oil/fuel	25,089	-	25,089
Traffic safety	-	100	100
Misc	31,369	17,875	49,244
Plant parts and repairs	35,407	-	35,407
Maintenance, repairs and upgrades	29,887	69,719	99,606
Instrument calibration	1,488	-	1,488
Power purchased	-	5,133,294	5,133,294
Payment in lieu of tax	-	32,475	32,475
Street lighting	-	1,555	1,555
Distribution	-	27,419	27,419
Engineering	8,469	-	8,469
Testing	11,178	3,782	14,960
Capital outlays	3,756	-	3,756
Depreciation	528,662	85,088	613,750
Total operating expenses	\$ 2,486,468	\$ 6,089,389	\$ 8,575,857
Operating income (loss)	\$ (146,131)	\$ (73,439)	\$ (219,570)
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 4,316	\$ 1,468	\$ 5,784
Gain on sale of assets	1,239	325	1,564
Interest expense	(3,426)	(1,713)	(5,139)
Total nonoperating revenues (expenses)	\$ 2,129	\$ 80	\$ 2,209
Income before contributions	\$ (144,002)	\$ (73,359)	\$ (217,361)
Capital contributions	10,078	-	10,078
Change in net position	\$ (133,924)	\$ (73,359)	\$ (207,283)
Total net position - beginning	10,568,133	2,699,877	13,268,010
Total net position - ending	\$ 10,434,209	\$ 2,626,518	\$ 13,060,727

The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Fund		
	Water and Sewer	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,296,386	\$ 6,034,225	\$ 8,330,611
Payments to suppliers	(869,551)	(5,486,545)	(6,356,096)
Payments to and for employees	(1,078,006)	(539,281)	(1,617,287)
Net cash provided by (used for) operating activities	\$ 348,829	\$ 8,399	\$ 357,228
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (79,224)	\$ (101,937)	\$ (181,161)
Proceeds from the sale of surplus	1,239	325	1,564
Principal payments on general obligation and revenue bonds	(132,038)	-	(132,038)
Principal payments on capital leases	(23,248)	(11,624)	(34,872)
Capital contributions	70,738	-	70,738
Interest expense	(3,426)	(1,713)	(5,139)
Net cash provided by (used for) capital and related financing activities	\$ (165,959)	\$ (114,949)	\$ (280,908)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 4,316	\$ 1,468	\$ 5,784
Net cash provided by (used for) investing activities	\$ 4,316	\$ 1,468	\$ 5,784
Net increase (decrease) in cash and cash equivalents	\$ 187,186	\$ (105,082)	\$ 82,104
Cash and cash equivalents - beginning	2,207,734	2,279,838	4,487,572
Cash and cash equivalents - ending	\$ 2,394,920	\$ 2,174,756	\$ 4,569,676
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (146,131)	\$ (73,439)	\$ (219,570)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	\$ 528,662	\$ 85,088	\$ 613,750
(Increase) decrease in accounts receivable	(49,701)	5,335	(44,366)
(Increase) decrease in deferred outflows of resources	(81,159)	(90,614)	(171,773)
(Increase) decrease in prepaid items	-	(939)	(939)
Increase (decrease) in customer deposits	5,750	12,940	18,690
Increase (decrease) in accounts payable	9,624	(40,363)	(30,739)
Increase (decrease) in wages payable	2,621	1,446	4,067
Increase (decrease) in compensated absences	3,387	944	4,331
Increase (decrease) in net pension liability	79,149	125,872	205,021
Increase (decrease) in deferred inflows of resources	(3,373)	(17,871)	(21,244)
Total adjustments	\$ 494,960	\$ 81,838	\$ 576,798
Net cash provided by (used for) operating activities	\$ 348,829	\$ 8,399	\$ 357,228

The notes to the financial statements are an integral part of this statement.

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies:

The financial statements of Town of Richlands, Virginia (the Town) conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant accounting policies established by GAAP and used by the Town are discussed below.

A. Financial reporting entity:

The Town is a municipal corporation governed by an elected seven-member Town Council. The accompanying financial statements present the government. Related organizations, if any, are described below.

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation:

Budgetary Comparison Schedules demonstrate compliance with the adopted budget, which is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports including the original budget and comparison of final budget and actual results.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for un-collectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds. All general tax revenue and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the general fund.

The Town reports the following major proprietary funds:

Proprietary funds account for operations that are financed in a manner similar to private business enterprises. The proprietary funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary funds consist of enterprise funds.

The Town operates a sewage collection and treatment system and a water distribution system. The activities of the systems are accounted for in the water and sewer fund.

The Town operates an electric distribution system. The activities of the systems are accounted for in the electric fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Prepaid Expenses

Prepaid expenses are for payments made by the Town in the current fiscal year to provide services occurring in the subsequent fiscal year.

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All other outstanding balances between funds are "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

4. Allowance for Uncollectible Accounts

For the General Fund, the allowance amounted to approximately \$48,459 for property taxes, \$2,432 for garbage billings, and \$138,496 for EMS billings at June 30, 2017. For the Proprietary Funds, the allowance amounted to approximately \$8,155 for water and sewer billings and \$19,766 for electric billings at June 30, 2017.

5. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of December 31st. Taxes are payable in December of the following fiscal year. The Town bills and collects its own property taxes.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The Town accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

8. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant, and equipment and infrastructure of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Plant, equipment and system	10-50
Infrastructure	20-25
Machinery and equipment	3-20
Motor vehicles	5-10

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town only has two items that qualify for reporting in this category. The first is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. It is also comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and prepaid tax amounts and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, prepaid amounts are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on the pension item, reference the pension note.

10. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

11. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

12. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

13. Concentration of Credit Risk

The Town has a credit risk associated with water, sewer, and electric fund accounts receivable due to geographic proximity of the Town's customers. The risk is mitigated by the large number of customers and relatively low individual balances.

14. Fund Equity

The Town follows provisions of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

14. Fund Equity (Continued)

- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The Town establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The General fund has a legally adopted budget.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the Town Council can revise the appropriation for each category. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 2-Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary information (Continued)

8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

B. Deficit fund equity

At June 30, 2017, there were no funds with deficit fund equity.

Note 3-Deposits and Investments:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et. Seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town did not have any investments as of June 30, 2017 or for the year then ended.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 4-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
<u>Local Government:</u>		
Tazewell County Public Service Authority	\$ -	\$ 1,185,310
<u>Commonwealth of Virginia:</u>		
Non-categorical aid	1,230	-
State sales tax	66,052	-
<u>Federal Government:</u>		
Categorical aid	29,612	-
 Total	 \$ 96,894	 \$ 1,185,310

Note 5-Long-Term Obligations:**Governmental Activities Obligations:**

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2017.

	<u>Balance July 1, 2016</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2017</u>
Capital leases	\$ 125,156	\$ -	\$ (87,802)	\$ 37,354
Compensated absences	339,802	254,385	(254,852)	339,335
Net pension liability	4,711,808	973,908	(577,822)	5,107,894
 Total	 \$ 5,176,766	 \$ 1,228,293	 \$ (920,476)	 \$ 5,484,583

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 5-Long-Term Obligations: (Continued)Governmental Activities Obligations: (Continued)

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Capital lease	8.70%	2016	2018	\$ 22,008	\$ 7,318	\$ 7,318
Capital lease	6.45%	2015	2018	90,228	30,036	30,036
Compensated Absences	n/a	n/a	n/a	n/a	339,335	254,501
Net pension liability	n/a	n/a	n/a	n/a	5,107,894	-
Total Other Obligations					<u>\$ 5,484,583</u>	<u>\$ 291,855</u>
Total Long-term obligations					<u>\$ 5,484,583</u>	<u>\$ 291,855</u>

Other obligations are typically liquidated by the general fund.

Business-type Activities Obligations:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2017.

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
General obligation bonds	\$ 1,762,704	\$ -	\$ (87,193)	\$ 1,675,511
Revenue bond	695,078	-	(44,845)	650,233
Capital lease	72,225	-	(34,872)	37,353
Compensated absences	117,135	92,182	(87,851)	121,466
Net pension liability	2,096,564	498,791	(293,770)	2,301,585
Total	<u>\$ 4,743,706</u>	<u>\$ 590,973</u>	<u>\$ (548,531)</u>	<u>\$ 4,786,148</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2017

Note 5-Long-Term Obligations: (Continued)Business-type Activities Obligations: (Continued)

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bond	
	Principal	Interest	Principal	Interest
2018	\$ 87,195	\$ -	\$ 44,844	\$ -
2019	87,195	-	44,844	-
2020	87,195	-	44,844	-
2021	87,195	-	44,844	-
2022	87,195	-	44,844	-
2023-2027	435,973	-	224,218	-
2028-2032	430,139	-	201,795	-
2033-2037	373,424	-	-	-
Totals	<u>\$ 1,675,511</u>	<u>\$ -</u>	<u>\$ 650,233</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 5-Long-Term Obligations: (Continued)Business-type Activities Obligations: (Continued)Details of long-term obligations:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Revenue Bond:						
Wastewater Series 2010	0.00%	2010	2024	\$ 1,121,250	\$ 650,233	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	81,667	5,834
Series 2005	0.00%	2005	2037	2,002,799	1,301,819	66,760
Series 2006	0.00%	2006	2037	438,037	292,025	14,601
Total Bonds					<u>\$ 2,325,744</u>	<u>\$ 132,039</u>
Other Obligations:						
Capital Lease	8.70%	2016	2018	\$ 22,008	\$ 7,318	\$ 7,318
Capital Lease	6.45%	2015	2018	990,228	30,035	30,035
Compensated Absences	n/a	n/a	n/a	n/a	121,466	91,100
Net Pension Liability	n/a	n/a	n/a	n/a	2,301,585	-
Total other obligations					<u>\$ 2,460,404</u>	<u>\$ 128,453</u>
Total long-term obligations					<u><u>\$ 4,786,148</u></u>	<u><u>\$ 260,492</u></u>

Revenue bonds are secured by revenue of the water/sewer fund.

Other obligations of the electric and water/sewer fund are typically liquidated by those funds.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan:*Plan Description*

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by a Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. •The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. •Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	24
Inactive members:	
Vested inactive members	3
Non-vested inactive members	7
Inactive members active elsewhere in VRS	<u>6</u>
Total inactive members	16
Active members	<u>76</u>
Total covered employees	<u><u>116</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required contribution rate for the year ended June 30, 2017 was 21.18% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)

Contributions (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$553,040 and \$592,036 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)**Actuarial Assumptions - Public Safety Employees (Continued)**

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 11,594,998	\$ 4,786,626	\$ 6,808,372
Changes for the year:			
Service cost	\$ 248,210	\$ -	\$ 248,210
Interest	794,150	-	794,150
Differences between expected and actual experience	367,567	-	367,567
Contributions - employer	-	592,036	(592,036)
Contributions - employee	-	126,916	(126,916)
Net investment income	-	92,686	(92,686)
Benefit payments, including refunds of employees contributions	(499,997)	(499,997)	-
Administrative expenses	-	(2,781)	2,781
Other changes	-	(37)	37
Net changes	\$ 909,930	\$ 308,823	\$ 601,107
Balances at June 30, 2016	\$ 12,504,928	\$ 5,095,449	\$ 7,409,479

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Town Net Pension Liability	8,954,080	7,409,479	6,115,841

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Town recognized pension expense of \$574,323. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 305,056	\$ 266,688
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,963	47,963
Net difference between projected and actual earnings on pension plan investments	136,563	-
Employer contributions subsequent to the measurement date	553,040	-
Total	\$ 1,042,622	\$ 314,651

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 6-Pension Plan: (Continued)***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)***

\$553,040 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2018	\$ (1,309)
2019	(1,310)
2020	64,508
2021	58,030
Thereafter	55,012

Note 7-Unearned Revenue:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unearned revenue totaling \$707,564 is comprised of the following:

Lease Revenue - Lease revenue proceeds received in advance totaled \$23,238 at year end.

Miscellaneous - Funding received in advance and carried over for use in the next fiscal year from Department of Transportation totaling \$684,326.

Note 8-Unavailable Revenue:

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue totaling \$106,340 is comprised of the following:

Property Taxes - Property tax revenue representing uncollected tax billings not available for funding current expenditures of \$75,379.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2017 but paid in advance by the taxpayers totaled \$30,961.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 9-Restricted Fund Balance/Net Position:

Fund balance and net position were restricted for the following purposes at year end:

<u>Purpose</u>	<u>Amount</u>
Big Creek payments	\$ 60,046
Public Safety Funds	48,622
Restricted Donations	46,077
Asset Forfeiture/Policing Funds	<u>121,687</u>
Total	<u>\$ 276,432</u>

Note 10-Capital Assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,357,395	\$ -	\$ -	\$ 1,357,395
Construction in progress	259,598	98,895	(188,264)	170,229
Total capital assets not being depreciated	<u>\$ 1,616,993</u>	<u>\$ 98,895</u>	<u>\$ (188,264)</u>	<u>\$ 1,527,624</u>
Capital assets, being depreciated:				
Buildings and system	\$ 3,384,514	\$ 8,906	\$ -	\$ 3,393,420
Infrastructure	9,398,661	52,905	-	9,451,566
Machinery and equipment	6,509,301	281,696	-	6,790,997
Total capital assets being depreciated	<u>\$ 19,292,476</u>	<u>\$ 343,507</u>	<u>\$ -</u>	<u>\$ 19,635,983</u>
Accumulated depreciation:				
Buildings and system	\$ (1,428,571)	\$ (95,823)	\$ -	\$ (1,524,394)
Infrastructure	(2,851,900)	(246,275)	-	(3,098,175)
Machinery and equipment	(5,551,960)	(309,835)	-	(5,861,795)
Total accumulated depreciation	<u>\$ (9,832,431)</u>	<u>\$ (651,933)</u>	<u>\$ -</u>	<u>\$ (10,484,364)</u>
Total capital assets being depreciated, net	<u>\$ 9,460,045</u>	<u>\$ (308,426)</u>	<u>\$ -</u>	<u>\$ 9,151,619</u>
Governmental activities capital assets, net	<u>\$ 11,077,038</u>	<u>\$ (209,531)</u>	<u>\$ (188,264)</u>	<u>\$ 10,679,243</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2017

Note 10-Capital Assets: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 517,913	\$ -	\$ -	\$ 517,913
Construction in progress	132,135	77,237	(135,358)	74,014
Total capital assets not being depreciated	<u>\$ 650,048</u>	<u>77,237</u>	<u>\$ (135,358)</u>	<u>\$ 591,927</u>
Capital assets, being depreciated:				
Utility plant and buildings in service	\$ 22,211,351	\$ 84,524	\$ -	\$ 22,295,875
Machinery and equipment	2,455,017	154,758	-	2,609,775
Total capital assets being depreciated	<u>\$ 24,666,368</u>	<u>\$ 239,282</u>	<u>\$ -</u>	<u>\$ 24,905,650</u>
Accumulated depreciation:				
Utility plant and buildings in service	\$ (11,968,809)	\$ (489,582)	\$ -	\$ (12,458,391)
Machinery and equipment	(1,331,387)	(124,168)	-	(1,455,555)
Total accumulated depreciation	<u>\$ (13,300,196)</u>	<u>\$ (613,750)</u>	<u>\$ -</u>	<u>\$ (13,913,946)</u>
Total capital assets being depreciated, net	<u>\$ 11,366,172</u>	<u>\$ (374,468)</u>	<u>\$ -</u>	<u>\$ 10,991,704</u>
Business-type activities capital assets, net	<u>\$ 12,016,220</u>	<u>\$ (297,231)</u>	<u>\$ (135,358)</u>	<u>\$ 11,583,631</u>

Depreciation expense was charged to functions/programs of the Town as follows:

Governmental activities:

General government administration	\$ 31,400
Public safety	260,179
Public works	315,211
Parks and recreation	45,143
Total depreciation expense - governmental activities	<u>\$ 651,933</u>

Business-type activities:

Water and sewer	\$ 528,662
Electric	85,088
Total depreciation expense - business-type activities	<u>\$ 613,750</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 11-Lease Obligations-Capital Leases:

The Town entered into a lease purchase agreements for the acquisition of a Pierce Stock Pumper, Pierce Stock Tanker, and IT server project. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates.

The cost and accumulated depreciation associated with the assets acquired through the capital lease is as follows:

	2017
Machinery and Equipment	\$ 680,466
Accumulated Depreciation	(467,951)
Total	<u>\$ 212,515</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

Fiscal Year Ended	Governmental Activities	Business-type Activities
2018	\$ 40,011	\$ 40,011
Total minimum lease payments	40,011	40,011
Less: amount representing interest	(2,657)	(2,658)
Present value of minimum lease payments	<u>\$ 37,354</u>	<u>\$ 37,353</u>

Note 12-Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates with other localities in a public entity risk pool for their coverage of property, general liability and auto insurance with the Virginia Municipal Liability Pool (Pool). Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Town pays the Pool contributions and assessments into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 13-Contingencies:

Grant funds are subject to audit by the funding agencies to determine compliance with various grant requirements. Should any expenditure be disallowed, they must be refunded to the granting agencies. Any liability for reimbursement, which may arise as the result of these audits is believed to be immaterial.

Note 14-Electric Power Agreement:

The Town is a participant in American Municipal Power-Ohio, Inc. (AMP-Ohio), a nonprofit corporation, organized to own and operate facilities for the generation, transmission, and distribution of electrical power. Other participants in MP-Ohio are political subdivisions which operate electric systems in Ohio, Michigan, Pennsylvania, Virginia, and West Virginia. As a participant, the Town has agreed to purchase specified kilowatts of power at AMP-Ohio's incurred cost through December 31, 2057. In accordance with this agreement the Town remits funds to an escrow account for the payment of power bills.

Note 15-Pledged Revenues:

The Town has pledged future water and sewer customer revenues to repay \$650,233 in water and wastewater bonds. Proceeds from the bonds provided financing for the construction of the water and sewer systems. The bonds are payable solely from water and sewer customer revenues and are payable through 2032.

Note 16-Electric Rate Stabilization Plan:

The Town entered into a rate stabilization plan with American Municipal Power, Inc. to reduce the effects of volatility in energy markets. As of June 30, 2017, the Town carried a balance of \$278,910 in an escrow account maintained for the Town's benefit. This amount has been reported in the financial statements as a prepaid item.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2017

Note 17-Service Agreements:

On September 3, 2003, the Town and Tazewell County Public Service Authority (TCPSA) entered into an agreement to share the costs of construction and operation of a water transmission facility known as Kent's Ridge Road Project. The project was financed by two thirty year, interest-free loans from the Virginia Resources Authority (VRA). The loans are secured by a pledge of revenues from the Town's water and wastewater systems and by a pledge of the Town's full faith and credit. Also, County of Tazewell, Virginia has undertaken, to the extent permitted by law, a non-binding but moral obligation to pay such amounts as may be needed, with respect to the notes, for the payment of principal and interest pursuant to the terms of the agreement. The Town has recorded an amount due from the TCPSA of \$1,185,310 at year end for their share of debt service payments.

The Town has also entered into separate agreements with the TCPSA and Town of Cedar Bluff, Virginia to provide water treatment. The agreements allocate operating costs and the cost of construction based on usage (or an estimate thereof).

The Town; Town of Cedar Bluff, Virginia; and Tazewell County Public Service Authority (TCPSA) entered into an agreement dated March 15, 1989, whereby each of the parties would participate in the allocation of capacity and costs with respect to the design, construction, operation and maintenance of a regional wastewater treatment facility. The Town is responsible for the operation of the facility. The Town is also responsible for budgeting and financing subject to agreed upon procedures by the three participants. Monthly user charges are paid by the participants for their share of the cost of the project.

Payments received by the Town during the fiscal year for the aforementioned agreements are as follow:

<u>Entity</u>	<u>Amounts</u>
Town of Cedar Bluff	\$ 139,488
Tazewell County PSA	695,064
Tazewell County PSA - loan payments	60,660
Total	<u>\$ 895,212</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2017

Note 18-Upcoming Pronouncements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues*, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Note 18-Upcoming Pronouncements: (Continued)

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Town of Richlands, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 487,000	\$ 487,000	\$ 484,317	\$ (2,683)
Other local taxes	1,966,000	1,966,000	1,961,647	(4,353)
Permits, privilege fees, and regulatory licenses	1,500	1,500	1,290	(210)
Fines and forfeitures	80,500	80,500	93,918	13,418
Revenue from the use of money and property	4,000	4,000	7,985	3,985
Charges for services	1,077,200	1,077,200	965,461	(111,739)
Miscellaneous	173,865	173,865	101,516	(72,349)
Recovered costs	73,500	73,500	77,446	3,946
Intergovernmental	1,927,957	1,927,957	1,144,891	(783,066)
Total revenues	<u>\$ 5,791,522</u>	<u>\$ 5,791,522</u>	<u>\$ 4,838,471</u>	<u>\$ (953,051)</u>
EXPENDITURES				
Current:				
General government administration	\$ 294,098	\$ 294,098	\$ 316,937	\$ (22,839)
Public safety	2,918,621	2,918,621	2,631,827	286,794
Public works	1,623,701	1,623,701	1,226,139	397,562
Parks, recreation, and cultural	361,586	361,586	323,389	38,197
Community development	15,000	15,000	25,850	(10,850)
Capital projects	1,324,096	1,324,096	483,407	840,689
Debt service:				
Principal retirement	89,072	89,072	87,802	1,270
Interest and other fiscal charges	4,369	4,369	5,004	(635)
Total expenditures	<u>\$ 6,630,543</u>	<u>\$ 6,630,543</u>	<u>\$ 5,100,355</u>	<u>\$ 1,530,188</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (839,021)</u>	<u>\$ (839,021)</u>	<u>\$ (261,884)</u>	<u>\$ 577,137</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	\$ 10,000	\$ 10,000	\$ 449	\$ (9,551)
Net change in fund balances	\$ (829,021)	\$ (829,021)	\$ (261,435)	\$ 567,586
Fund balances - beginning	829,021	829,021	717,292	(111,729)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 455,857</u>	<u>\$ 455,857</u>

Town of Richlands, Virginia
Schedule of Changes in Net Pension Liability and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 248,209	\$ 233,924	\$ 228,999
Interest	794,150	790,952	759,699
Differences between expected and actual experience	367,567	(408,168)	-
Benefit payments, including refunds of employee contributions	(499,997)	(642,038)	(442,432)
Net change in total pension liability	\$ 909,929	\$ (25,330)	\$ 546,266
Total pension liability - beginning	11,594,998	11,620,328	11,074,062
Total pension liability - ending (a)	\$ 12,504,927	\$ 11,594,998	\$ 11,620,328
Plan fiduciary net position			
Contributions - employer	\$ 592,036	\$ 556,985	\$ 499,158
Contributions - employee	126,916	120,115	119,403
Net investment income	92,686	205,782	599,476
Benefit payments, including refunds of employee contributions	(499,997)	(642,038)	(442,432)
Administrative expense	(2,781)	(2,752)	(3,098)
Other	(37)	(46)	33
Net change in plan fiduciary net position	\$ 308,823	\$ 238,046	\$ 772,540
Plan fiduciary net position - beginning	4,786,626	4,548,580	3,776,041
Plan fiduciary net position - ending (b)	\$ 5,095,449	\$ 4,786,626	\$ 4,548,581
Town's net pension liability - ending (a) - (b)	\$ 7,409,478	\$ 6,808,372	\$ 7,071,747
Plan fiduciary net position as a percentage of the total pension liability	40.75%	41.28%	39.14%
Covered payroll	\$ 2,594,810	\$ 2,433,045	\$ 2,391,408
Town's net pension liability as a percentage of covered payroll	285.55%	279.83%	295.71%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Town of Richlands, Virginia
Schedule of Employer Contributions
For the Years Ended June 30, 2010 through June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2017	\$ 553,040	\$ 553,040	\$ -	\$ 2,611,141	21.18%
2016	592,036	592,036	-	2,594,810	22.82%
2015	556,985	556,985	-	2,433,045	22.89%
2014	499,326	499,326	-	2,391,408	20.88%
2013	496,596	496,596	-	2,378,333	20.88%
2012	554,563	554,563	-	2,349,843	23.60%
2011	558,180	558,180	-	2,365,170	23.60%
2010	49,485	49,485	-	209,683	23.60%

Information is only available for eight years as the Town joined the Virginia Retirement System during fiscal year 2010.

Current year contributions are from Town records and prior year contributions are from the VRS actuarial valuation performed each year.

Town of Richlands, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

Schedule 1
Page 1 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 453,000	\$ 453,000	\$ 435,521	\$ (17,479)
Real and personal public service corporation taxes	18,000	18,000	20,308	2,308
Mobile home taxes	12,000	12,000	14,830	2,830
Penalties and Interest	4,000	4,000	13,658	9,658
Total general property taxes	<u>\$ 487,000</u>	<u>\$ 487,000</u>	<u>\$ 484,317</u>	<u>\$ (2,683)</u>
Other local taxes:				
Local sales and use taxes	\$ 390,000	\$ 390,000	\$ 379,105	\$ (10,895)
Consumers utility tax	150,000	150,000	143,159	(6,841)
Local consumption tax	22,000	22,000	20,052	(1,948)
Business license taxes	490,000	490,000	432,437	(57,563)
Motor vehicle licenses	34,000	34,000	31,441	(2,559)
Bank stock taxes	180,000	180,000	182,740	2,740
Meals taxes	700,000	700,000	772,713	72,713
Total other local taxes	<u>\$ 1,966,000</u>	<u>\$ 1,966,000</u>	<u>\$ 1,961,647</u>	<u>\$ (4,353)</u>
Permits, privilege fees, and regulatory licenses:				
Zoning permits	\$ 1,500	\$ 1,500	\$ 1,290	\$ (210)
Fines and forfeitures:				
Court fines and forfeitures	\$ 80,000	\$ 80,000	\$ 92,724	\$ 12,724
Asset forfeitures	-	-	1,069	1,069
Parking violations	500	500	125	(375)
Total fines and forfeitures	<u>\$ 80,500</u>	<u>\$ 80,500</u>	<u>\$ 93,918</u>	<u>\$ 13,418</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 4,000	\$ 4,000	\$ 4,165	\$ 165
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 7,985</u>	<u>\$ 3,985</u>
Charges for services:				
Contract work - Streets	\$ 5,000	\$ 5,000	\$ 4,897	\$ (103)
Rescue Squad billings	600,000	600,000	496,878	(103,122)
Swimming pool fees	15,000	15,000	10,360	(4,640)
Concession collections	12,000	12,000	9,184	(2,816)
Basketball fees	3,000	3,000	4,155	1,155
Indoor tennis fees	2,500	2,500	169	(2,331)
Outdoor tennis fees	700	700	77	(623)
Membership fees	-	-	18	18
Room rental	5,000	5,000	3,066	(1,934)
Miscellaneous recreation fees	5,000	5,000	2,463	(2,537)
Convenience fees	4,000	4,000	7,403	3,403
Garbage collections	425,000	425,000	411,801	(13,199)
Farmer's market revenue	-	-	14,990	14,990
Total charges for services	<u>\$ 1,077,200</u>	<u>\$ 1,077,200</u>	<u>\$ 965,461</u>	<u>\$ (111,739)</u>

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

Schedule 1
Page 2 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Revenue from local sources: (continued)				
Miscellaneous:				
Miscellaneous	\$ 8,000	\$ 8,000	\$ 20,866	\$ 12,866
Gifts and donations	-	-	1,008	1,008
Gifts and donations - Fire	57,865	57,865	68,245	10,380
Gifts and donations - Recreation	100,000	100,000	-	(100,000)
Gifts and donations - Police	8,000	8,000	8,928	928
Gifts and donations - Rescue	-	-	2,469	2,469
Total miscellaneous	<u>\$ 173,865</u>	<u>\$ 173,865</u>	<u>\$ 101,516</u>	<u>\$ (72,349)</u>
Recovered costs:				
County of Tazewell - fire program	\$ 70,500	\$ 70,500	\$ 70,500	\$ -
Returned check fees	2,000	2,000	1,830	(170)
Restitution	1,000	1,000	5,116	4,116
Total recovered costs	<u>\$ 73,500</u>	<u>\$ 73,500</u>	<u>\$ 77,446</u>	<u>\$ 3,946</u>
Total revenue from local sources	<u>\$ 3,863,565</u>	<u>\$ 3,863,565</u>	<u>\$ 3,693,580</u>	<u>\$ (169,985)</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 2,500	\$ 2,500	\$ 3,255	\$ 755
Motor vehicles carrier's tax	2,000	2,000	2,575	575
Railroad rolling stock tax	-	-	10,063	10,063
Total noncategorical aid	<u>\$ 4,500</u>	<u>\$ 4,500</u>	<u>\$ 15,893</u>	<u>\$ 11,393</u>
Categorical aid:				
Litter control grant	\$ 2,700	\$ 2,700	\$ 2,369	\$ (331)
Local law enforcement block grant	-	-	2,729	2,729
Police grants	-	-	9,934	9,934
Highway revenue sharing	200,000	200,000	18,423	(181,577)
Street maintenance	928,242	928,242	743,991	(184,251)
Law enforcement grant	138,003	138,003	138,004	1
Drug enforcement	93,087	93,087	69,086	(24,001)
EMS grants	145,072	145,072	8,854	(136,218)
Fire grants	-	-	17,006	17,006
Other state revenue	16,000	16,000	5,000	(11,000)
Total categorical aid	<u>\$ 1,523,104</u>	<u>\$ 1,523,104</u>	<u>\$ 1,015,396</u>	<u>\$ (507,708)</u>
Total revenue from the Commonwealth	<u>\$ 1,527,604</u>	<u>\$ 1,527,604</u>	<u>\$ 1,031,289</u>	<u>\$ (496,315)</u>
Revenue from the federal government:				
Categorical aid:				
Asset forfeitures	\$ -	\$ -	\$ 26,273	\$ 26,273
Transportation enhancement grant	400,353	400,353	23,760	(376,593)
High intensity drug trafficking areas grant	-	-	25,069	25,069
Rural development grant	-	-	38,500	38,500
Total categorical aid	<u>\$ 400,353</u>	<u>\$ 400,353</u>	<u>\$ 113,602</u>	<u>\$ (286,751)</u>
Total revenue from the federal government	<u>\$ 400,353</u>	<u>\$ 400,353</u>	<u>\$ 113,602</u>	<u>\$ (286,751)</u>
Total General Fund	<u>\$ 5,791,522</u>	<u>\$ 5,791,522</u>	<u>\$ 4,838,471</u>	<u>\$ (953,051)</u>

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
Town Council	\$ 15,907	\$ 15,907	\$ 16,122	\$ (215)
Administration	273,901	273,901	241,476	32,425
Fringe benefits	4,290	4,290	59,339	(55,049)
Total general government administration	<u>\$ 294,098</u>	<u>\$ 294,098</u>	<u>\$ 316,937</u>	<u>\$ (22,839)</u>
Public safety:				
Law enforcement and traffic control:				
Police grants	\$ -	\$ -	\$ 31,097	\$ (31,097)
Drug task force	93,087	93,087	105,277	(12,190)
Police department	1,864,863	1,864,863	1,643,775	221,088
Asset forfeiture	-	-	25,821	(25,821)
Total law enforcement and traffic control	<u>\$ 1,957,950</u>	<u>\$ 1,957,950</u>	<u>\$ 1,805,970</u>	<u>\$ 151,980</u>
Fire and rescue services:				
Fire Department	\$ 222,689	\$ 222,689	\$ 132,087	\$ 90,602
Rescue Squad	737,982	737,982	693,770	44,212
Total fire and rescue services	<u>\$ 960,671</u>	<u>\$ 960,671</u>	<u>\$ 825,857</u>	<u>\$ 134,814</u>
Total public safety	<u>\$ 2,918,621</u>	<u>\$ 2,918,621</u>	<u>\$ 2,631,827</u>	<u>\$ 286,794</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	<u>\$ 1,157,075</u>	<u>\$ 1,157,075</u>	<u>\$ 835,555</u>	<u>\$ 321,520</u>
Sanitation and waste removal:				
Refuse collection and disposal	<u>\$ 466,626</u>	<u>\$ 466,626</u>	<u>\$ 390,584</u>	<u>\$ 76,042</u>
Total public works	<u>\$ 1,623,701</u>	<u>\$ 1,623,701</u>	<u>\$ 1,226,139</u>	<u>\$ 397,562</u>
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	<u>\$ 352,022</u>	<u>\$ 352,022</u>	<u>\$ 321,307</u>	<u>\$ 30,715</u>
Library:				
Library	<u>\$ 9,564</u>	<u>\$ 9,564</u>	<u>\$ 2,082</u>	<u>\$ 7,482</u>
Total parks, recreation, and cultural	<u>\$ 361,586</u>	<u>\$ 361,586</u>	<u>\$ 323,389</u>	<u>\$ 38,197</u>

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Community development:				
Planning and community development:				
Downtown activities	\$ 15,000	\$ 15,000	\$ 25,850	\$ (10,850)
Capital projects/outlays:				
Capital projects and capital outlays	\$ 1,324,096	\$ 1,324,096	\$ 483,407	\$ 840,689
Debt service:				
Principal retirement	\$ 89,072	\$ 89,072	\$ 87,802	\$ 1,270
Interest and other fiscal charges	4,369	4,369	5,004	(635)
Total debt service	\$ 93,441	\$ 93,441	\$ 92,806	\$ 635
Total General Fund	\$ 6,630,543	\$ 6,630,543	\$ 5,100,355	\$ 1,530,188

Table 1

Town of Richlands, Virginia
Government-Wide Expenses by Function
Last Eight Fiscal Years (1)

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Electric	Total
2009-10	\$ 517,043	\$ 2,800,286	\$ 1,406,509	\$ 349,495	\$ 141,269	\$ 17,501	\$ 2,014,444	\$ 6,156,711	\$ 13,403,258
2010-11	271,310	2,764,620	1,544,774	390,015	206,662	16,801	2,106,703	5,833,916	13,134,801
2011-12	270,119	2,688,745	1,636,116	382,314	38,246	11,921	2,259,778	5,227,037	12,514,276
2012-13	290,591	2,838,354	1,551,236	391,472	129,783	9,285	2,282,333	5,291,893	12,784,947
2013-14	285,960	2,863,825	1,500,829	354,456	58,493	7,164	2,392,826	6,743,677	14,207,230
2014-15	269,723	2,645,744	1,595,057	343,926	52,705	4,949	2,408,886	6,094,861	13,415,851
2015-16	292,353	2,749,662	1,719,756	379,405	27,499	2,628	2,465,129	6,005,247	13,641,679
2016-17	333,731	2,828,938	1,773,908	377,855	25,850	3,873	2,489,894	6,091,102	13,925,151

(1) Information has only been available for eight years.

Table 2

Town of Richlands, Virginia
Government-Wide Revenues
Last Eight Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs		
2009-10	\$ 10,020,767	\$ 1,983,278	\$ -		\$ 461,000	\$ 1,704,768	\$ 39,784	\$ 486,673	\$ -	\$	14,696,270
2010-11	10,517,188	1,162,629	1,773,617		408,275	1,671,219	27,512	196,854	9,598		15,766,892
2011-12	9,278,334	1,331,617	245,517		434,748	1,751,238	17,868	124,600	4,081		13,188,003
2012-13	9,672,614	1,778,186	93,941		464,070	1,848,254	16,874	364,230	13,685		14,251,854
2013-14	10,035,089	1,280,498	4,607,782		469,162	1,941,856	14,050	167,513	4,057		18,520,007
2014-15	9,550,616	980,826	31,432		478,340	2,035,854	13,880	130,668	16,754		13,238,370
2015-16	9,066,108	1,319,735	1,225		467,740	2,014,265	14,016	170,664	22,046		13,075,799
2016-17	9,416,956	1,105,238	33,838		485,587	1,961,647	13,769	103,080	15,893		13,136,008

(1) Information has only been available for eight years.

Table 3

Town of Richlands, Virginia
General Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non-departmental	Debt Service	Total (1)
2007-08	\$ 878,513	\$ 2,962,490	\$ 1,653,354	\$ 325,440	\$ 37,783	-	\$ 82,187	\$ 5,939,767
2008-09	710,412	2,738,636	1,514,056	392,150	1,205	-	86,079	5,442,538
2009-10	295,497	2,747,120	1,331,514	356,386	141,269	-	58,912	4,930,698
2010-11	286,319	2,615,615	1,333,176	451,633	206,662	-	86,081	4,979,486
2011-12	267,218	2,529,280	1,388,996	340,314	38,246	-	86,085	4,650,139
2012-13	254,595	2,639,835	1,297,287	349,064	129,783	-	55,364	4,725,928
2013-14	263,515	2,623,164	1,219,929	310,872	58,493	-	55,364	4,531,337
2014-15	267,560	2,535,244	1,311,842	300,353	52,705	-	55,365	4,523,069
2015-16	280,546	2,681,036	1,367,609	341,942	27,499	113,910	95,376	4,907,918
2016-17	316,937	2,631,827	1,226,139	323,389	25,850	-	92,806	4,616,948

(1) Excludes Capital Projects.

Table 4

Town of Richlands, Virginia
General Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property				Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2007-08	\$ 408,501	\$ 1,386,360	\$ 14,615	\$ 135,107	\$ 76,011	\$ 1,071,321	\$ 518,389	\$ -	\$ 1,275,563	\$ 4,885,867			
2008-09	419,861	1,437,774	2,035	181,716	34,833	1,106,721	296,866	-	1,118,771	4,598,577			
2009-10	425,420	1,704,768	1,585	85,661	19,021	1,264,454	286,617	-	1,338,364	5,125,890			
2010-11	432,840	1,671,219	2,225	162,930	15,894	1,121,649	185,927	150,408	1,339,879	5,082,971			
2011-12	433,863	1,751,238	2,090	50,562	11,853	1,190,198	117,765	140,780	1,373,185	5,071,534			
2012-13	458,103	1,848,254	1,715	62,675	8,747	1,142,404	351,811	62,726	1,856,074	5,792,509			
2013-14	460,876	1,941,856	1,270	237,281	8,938	1,116,902	158,987	63,189	1,319,989	5,309,288			
2014-15	481,056	2,035,854	1,755	99,052	9,139	1,072,943	126,508	139,441	1,029,012	4,994,760			
2015-16	467,433	2,014,265	1,280	107,308	9,238	1,122,305	164,755	73,104	1,343,006	5,302,694			
2016-17	484,317	1,961,647	1,290	93,918	7,985	965,461	101,516	77,446	1,144,891	4,838,471			

Table 5

Town of Richlands, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
2007-08	\$ 407,711	\$ 384,290	94.26%	\$ 19,408	\$ 403,698	99.02%	\$ 26,167	6.42%
2008-09	414,990	391,112	94.25%	19,082	410,194	98.84%	29,226	7.04%
2009-10	418,224	372,689	89.11%	19,895	392,584	93.87%	34,252	8.19%
2010-11	421,699	394,301	93.50%	21,144	415,445	98.52%	58,811	13.95%
2011-12	424,866	392,515	92.39%	24,079	416,594	98.05%	63,755	15.01%
2012-13	457,827	434,546	94.91%	18,364	452,910	98.93%	72,597	15.86%
2013-14	458,280	431,776	94.22%	22,171	453,947	99.05%	81,578	17.80%
2014-15	453,872	431,469	95.06%	28,133	459,602	101.26%	77,324	17.04%
2015-16	455,304	426,994	93.78%	21,212	448,206	98.44%	65,210	14.32%
2016-17	458,300	428,053	93.40%	27,776	455,829	99.46%	67,811	14.80%

(1) Exclusive of penalties and interest.

(2) Delinquent taxes include only amounts that have been delinquent less than three years.

Table 6

Town of Richlands, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Public Service Corporation	Total
2007-08	\$ 243,153,600	\$ 11,665,588	\$ 254,819,188
2008-09	249,235,687	10,132,899	259,368,586
2009-10	250,972,225	10,417,493	261,389,718
2010-11	253,304,900	9,916,473	263,221,373
2011-12	254,672,500	10,460,117	265,132,617
2012-13	274,891,300	11,250,521	286,141,821
2013-14	274,606,600	11,818,369	286,424,969
2014-15	275,127,700	10,719,704	285,847,404
2015-16	275,640,700	11,200,407	286,841,107
2016-17	276,450,600	12,692,299	289,142,899

Table 7

Town of Richlands, Virginia
Property Tax Rates
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Real Estate (1)</u>
2007-08	\$ 0.16
2008-09	0.16
2009-10	0.16
2010-11	0.16
2011-12	0.16
2012-13	0.16
2013-14	0.16
2014-15	0.16
2015-16	0.16
2016-17	0.16

(1) Per \$100 of assessed value.

Table 8

Town of Richlands, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2007-08	5,639	\$ 254,819	\$ 4,647,573	1.82%	\$ 824
2008-09	5,639	259,369	4,321,534	1.67%	766
2009-10	5,639	261,390	3,934,684	1.51%	698
2010-11	5,823	263,221	3,567,306	1.36%	613
2011-12	5,823	265,133	3,133,236	1.18%	538
2012-13	5,823	286,142	2,714,671	0.95%	466
2013-14	5,823	286,425	2,288,371	0.80%	393
2014-15	5,823	285,847	1,849,899	0.65%	318
2015-16	5,823	286,841	1,762,704	0.61%	303
2016-17	5,823	289,143	1,675,511	0.58%	288

(1) U.S. Census Bureau.

(2) Includes all long-term general obligation bonded debt and bonded anticipation notes.
Excludes revenue bonds, capital leases, and compensated absences.

Table 9

Town of Richlands, Virginia
Computation of Legal Debt Margin
At June 30, 2017

Total assessed value of taxed real property	\$ 289,142,899
Debt limit - 10 percent of total assessed value	28,914,290
Amount of debt applicable to debt limit	<u>(1,675,511)</u>
Legal debt margin	<u>\$ 27,238,779</u>

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of the Town Council
Town of Richlands, Virginia
Richlands, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Richlands, Virginia's basic financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Richlands, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Richlands, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Richlands, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Richlands, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia

November 20, 2017